

null
Carol X Weakley 10/23/2006 10:57:26 AM From DB/Inbox: Carol X Weakley

Cable
Text:

C O N F I D E N T I A L TEL AVIV 04176

SIPDIS
CXTela:

ACTION: ECON
INFO: IPSC SCI IMO CONS RES ADM PD POL DCM AMB FCS
AID

DISSEMINATION: ECON
CHARGE: PROG

APPROVED: ECON:WWEINSTEIN
DRAFTED: ECON:JNWITOW
CLEARED: POL:PVROOMAN

VZCZCTVI190
OO RUEHC RUEHKK RUEATRS RHEHNSC
DE RUEHTV #4176/01 2931506
ZNY CCCCC ZZH
O 201506Z OCT 06
FM AMEMBASSY TEL AVIV
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7105
INFO RUEHKK/ARAB ISRAELI COLLECTIVE IMMEDIATE
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RHEHNSC/NSC WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 004176

SIPDIS

NEA/FO FOR DANIN; NEA/IPA FOR WILLIAMS, SHAMPAINE,
BELGRADE; EB/FO FOR DIBBLE; EB/OMA FOR GARRY; NSC FOR
ABRAMS, DORAN, WATERS; TREASURY FOR HIRSON

E.O. 12958: DECL: 10/19/2016
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [IS](#)
SUBJECT: REFORM MAVEN LEAVING FINANCE MINISTRY

Classified By: Economics Counselor William Weinstein for reasons 1.4 b
and d.

Yossi Bachar to Quit MoF

1. (C) Yossi Bachar, the Director General of the Ministry of Finance (MoF) announced on October 16 that he will be leaving his post at the ministry. He agreed to Finance Ministry Hirschson's request to stay on the job until the 2007 budget is passed by the Knesset, which should happen by the end of the year, but may take until sometime in early 2007. Bachar's Senior Advisor, Rani Loebenstein, told Econ Counselor on October 19 that Bachar has served as Director General under three Prime Ministers (Netanyahu Sharon, and Olmert) and has been on the job longer than most previous MoF Directors General. He said that Bachar, whose name is closely associated with Israel's economic reform program of recent years and also the effort to combat poverty, felt that the time had come for a "change" and that he preferred to leave when he was still "on top" rather than wait to see his handiwork dismantled by a more liberal spending policy. Bachar will likely engage in consulting during the year long "cooling off" period required before a former official is allowed to work directly for a company in a field in which he previously exercised influence. He refused to speculate regarding a possible successor to Bachar, saying simply that the choice of a new DG was entirely up to the minister.

Who Will Champion Fiscal Restraint?

12. (C) Loebenstein expressed ambivalence regarding the strength of the government's continued commitment to fiscal restraint. He noted that the coalition is weak and that it is not clear that it would be able to withstand the demands to raise spending more than is prudent. In response to Econ Couns query as to who will now become the new "champion" of reform and fiscal restraint, Loebenstein had no answer, and glumly said "the new DG." He added, however, that Budget Chief Kobi Haber strongly advocates fiscal restraint, and would continue to push for responsible economic policies. As for Finance Minister Hirschson himself, Loebenstein characterized him as not having particularly strong views one way or another, indicating that the Prime Minister and the MoF professional staff would more decisively influence policy.

Israel-Palestinian Banking Solution in Sight

13. (C) On the issue of Israeli-Palestinian correspondence banking, Loebenstein said that the Israeli banks had extended their deadline for resolution of the problem to November 1. He said that the Minister of Finance and the Governor of the Bank of Israel had both agreed to a solution, and expected that objections raised by Yehuda Shaeffer, the Chief of the Anti-Money Laundering Unit at the Ministry of Justice would be overcome by sometime next week. Loebenstein said that if Israeli banks follow the procedures delineated in the agreement, they will not be held liable if any of their financial transactions with Palestinian banks are somehow tied to terrorism.

Israel Flexible on JEDG Timing/Location

14. (C) Regarding the U.S. - Israel Joint Economic Development Group, Loebenstein indicated that the Israeli side was very flexible as to timing and location. While the Israelis would prefer to keep to the yearly site rotation between Washington and Jerusalem - which would put the meeting in Jerusalem this time - he said that meeting in Washington would also be acceptable. On timing, December works well, but Israel would not object if the U.S. wanted to push the meeting off into next year. Loebenstein said that the Israeli side has already begun working on the substance of the meeting and suggested that it cover four main topics: the macroeconomy, the Loan Guarantee Agreement term sheet, the 2007 economic plan, and the cost of the Lebanon War.

15. (C) Comment: The departure of Bachar is a blow to the GOI's successful policy of fiscal restraint, and will leave Bank of Israel Governor Stanley Fischer as its only powerful advocate in the senior echelon. Without a strong figure such as Bachar in the pivotal position of MoF DG, the weakness of the present coalition and future attempts to shore it up could result in higher spending levels which would erode the accomplishments of previous governments. It also casts doubt on the GOI's ability to follow through on its reform program in other spheres as well, such as privatization and banking and capital market reform. The choice of Bachar's successor will be one of the most significant appointments made by the Olmert government and will be key to determining the future direction of the Israeli economy. End comment.

Visit Embassy Tel Aviv's Classified Website:
<http://www.state.sgov.gov/p/nea/telaviv>

You can also access this site through the State Department's
Classified SIPRNET website.

CRETZ